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TAGS: ECPS ETRD FR
SUBJECT: France: Telecom and Information Technology Update

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¶1. This is another in a series of periodic updates on the French telecommunications and information technology sectors, including internet and e-commerce.

Contents:

¶2. New CEO named for France Telecom: Didier Lombard has been appointed Chairman and CEO of France Telecom (FT), succeeding Thierry Breton, who was appointed French finance minister following the resignation of Herve Gaymard. Lombard, 63, is head of strategy and partnerships at FT, and began his association with the company in 1967. Breton, who took the helm of FT in 2002, is credited with implementing a three-year recovery plan, now in its final year, and Lombard is expected to continue his predecessor's strategy. This will be the first time Lombard has run a publicly listed company. Previously, he was scientific and technical director at the Ministry of Research and Technology, and later general manager of industrial strategy at the Ministry of the Economy, Finance and Industry. Lombard also helped achieve the creation of STMicroelectronics, a French high-tech sector success, via a Franco-Italian agreement. In addition to his FT experience, Lombard served as Ambassador-at-Large for international investment at the Ministry of the Economy, Finance and Industry from 1999 to 2003. According to a source close to the departing Breton, Lombard's appointment is a sign of continuity of corporate strategy, although Lombard will face challenges in maintaining the momentum of recovery initiated by Breton.

¶3. France Telecom Announces 2004 Results: France Telecom has announced that its net profit for the 2004 fiscal year was 2.8 billion euros; this was a decline of 13% and smaller than analysts' forecasts of a 3.15 billion euro profit. However, 2005 dividend payments for FY 2004 were 0.48 euro per share, almost twice as high as 2003's 0.25 euro dividend. Dividend payments in 2005 amounted to a total outlay of 1.2 billion euros. Investors noted, however, that return on FT shares was only 2%, well below the sector average of 3.8%. FT has promised to raise its return to the industry average, without providing further details. During FY 2004, FT saw declines in the fixed-line market that were somewhat compensated by growth in Wanadoo, FT's internet service unit. In the last quarter of 2004, Wanadoo took 41.6% of new subscribers to ASDL internet, giving the company a 46% share of France's 6.3 million ASDL users. In 2005, Wanadoo plans to launch the LivePhone, an internet-compatible telephone that will complement its popular LiveBox modem. FT also recently sold 8% of its subsidiary PagesJaunes, ceding 22.3 million shares. FT still remains the largest shareholder in the company, with a 54% stake.

¶4. A Victory For ART ...: In a move that may pave the way for increased network access for FT competitors, French telecom regulator ART rejected a fixed charge increase by FT that contained no provisions for greater opening of the market. The plan submitted by FT would have increased the fixed monthly subscription charge from 13 euros to 15.99 euros over the period of 2004 to 2007, while simultaneously reducing pro-rated call charges by 26%. After consultations with ART, the French government allowed FT to make a one euro increase in monthly subscription charges (to 14 euros), applicable only for 2005. ART approval of further subscription increases for 2006 and 2007 is contingent upon FT's steps towards allowing greater market access. Competitors wish to see a 30% discount from the monthly

retail charge to FT subscribers to establish the monthly wholesale rate that FT charges to competitors who wish to resell FT subscriptions. (At present, the retail charge is 10.87 euros next of taxes, while the wholesale charge is 10.50 euros.) FT has suggested an 8% discount, while ART is pressing for one at least twice as large. In addition to the increase in monthly residential subscription charges, FT is also planning a 6% increase in subscription fees for professionals. This new increase, which had been requested by former FT CEO Thierry Breton, has yet to be approved by ART.

¶5. ... And a Setback: The Conseil d'Etat, France's highest administrative court, ruled that the 2002 tariff scheme imposed on FT by ART lacked transparency. The scheme applied to the tariffs assessed by FT for the use of its network by competitors. ART would still like to see these tariffs lowered, but the court's ruling has weakened ART's hand considerably, just as the GOF has given it all future authority to regulate telecom tariffs. According to the court, ART failed to disclose that in 2002 it changed its calculation method for determining the network unbundling tariff. The 2002 scheme provided the basis for the one approved by ART and the GOF in January. Although the ruling has no immediate material impact on the company, it makes it possible for FT to sue the French state for indemnity.

¶6. ART Finds Insufficient Competition in Mobile Phone Market: In December, ART found that France's three largest mobile operators, Orange, SFR and Bouygues Telecom were colluding to maintain a dominant position in the market that disadvantages competitors. Of particular concern to ART were the "virtual" mobile companies (MVNO), which lease their mobile infrastructure from the major providers. In its first analysis of the mobile market, ART maintained that the major operators must set more reasonable access conditions for the MVNOs that wish to use their networks. ART was also unimpressed by the recent profusion of agreements made between the major operators and various MVNOs. In ART's view, none of the MVNOs have attained the critical size that would give them more influence and leverage via a vis their host operator. Agreements with MVNOs were thus judged by ART to be insignificant as long as the major operators continue to set conditions of access that prevent the MVNOs from effectively competing in the market. The fact that Bouygues Telecom has excluded itself from any agreements with MVNOs was taken by ART as a further sign of the unimportance of such deals, and suggested to ART that the three operators have not deviated from their strategy of collusion. However, ART resisted calls from MVNOs to fix the operators' wholesale charges, responding that the MVNOs would eventually grow and be able to exert such downward pressure themselves.

¶7. Orange and SFR Respond to ART Report: Responding to the ART analysis cited above, Orange and SFR had harsh words for ART's conclusions about the level of competition in the mobile phone market. Orange denounced the report as full of "obvious errors of judgment" that gave a "false and disparaging" picture of the market. SFR called the report "erroneous and biased," while Bouygues Telecom refused to comment on it. Orange and SFR insisted that contrary to ART's assessment, competition within the mobile market is very intense, and that this greatly benefits French telecom consumers. The two companies also criticized ART's dismissal of their agreements with MVNOs, insisting that their access charges are competitive, and that the virtual operators maintain a high level of independence from the host companies.

¶8. GOF Selects Standard for Subscription Digital TV: The French government has chosen the MPEG4 standard for broadcasts of subscription digital terrestrial television (DTT), against the recommendation of the audiovisual administrator CSA. The MPEG2 standard will be used for the 13 free DTT channels that will begin broadcasting in March. The MPEG4 standard was reportedly selected for subscription DTT because of its greater signal compression, which will allow several high-definition channels to be launched within two years, in addition to the 31 DTT channels already planned. According to the GOF, selecting the MPEG2 standard for subscription DTT would have delayed the arrival of high-definition television until 2015. As a result of the decision to employ two broadcast standards, some short-term difficulties are anticipated for the launch of DTT. Subscription-based and free channels will share broadcast costs, but the smaller signal size of MPEG4 means that subscription channels may ask for a proportionately smaller cost share. Also, broadcast bouquets currently consist of a mixture of free and subscription channels, but the MPEG4 standard is most efficient if it is the sole standard in the bouquet. Although transmission of the DTT channels is scheduled to start between September 2005 and March 2006, launch delays are possible as the MPEG4 decoders are not yet ready for commercial distribution.

¶9. TF1 CEO Predicts Large Growth in Television over ASDL: Patrick Le Lay, CEO of TF1, has projected that within five years, 2.5 million French homes will subscribe to free programming via ASDL television, and 1 million homes will have ASDL subscriptions to paid programming. ASDL providers Neuf Telecom and France Telecom responded that their vision for the future of the ASDL market did not extend past two years. However, current trends indicate that the figures put forth by Le Lay are highly plausible. At the end of January 2005, the total number of ASDL subscribers in France cleared the 100,000 hurdle, and FT, which currently has 90,000 of those subscribers, hopes to have 210,000 by year's end, while Neuf TV expects to have 100,000 subscribers. Sources project a total of 600,000 paying ASDL subscribers by the end of 2006, with one million by 2010. Depending on the rate of distribution of Neuf TV modems and Freeboxes, it is also possible that Le Lay's prediction of 2.5 million free programming subscribers by 2010 may indeed come true.

¶10. FT Joins Others to Bid for Stake in Czech Telecom Company: FT has joined a consortium to participate in the tender process for Cesky Telecom, the primary telecom operator of the Czech Republic. Once the Government of the Czech Republic decided that it will sell its 51% stake in Cesky Telecom, France Telecom teamed up with an international consortium of three private investment firms to participate in the tender process of the National Property Fund (NPF) of the Czech Republic. The value of this majority equity interest is estimated at $2.6 billion, according to news reports, which also noted that the Czech telecom company successfully turned a 2003 operating loss around in 2004 through growing sales and consolidation of its highly profitable mobile division. Besides France Telecom, the consortium includes the Blackstone Group, CVC Capital Partners and Providence Equity Partners Inc. Should their bid be successful, FT would enter into a strategic partnership with Cesky Telecom via a minority stake in the consortium.

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